Follow Up Article to January 20th Session

Building Your Wealth Plan: Let's Start Now

A common misconception about wealth planning is that you need to wait until you are "wealthy" to begin investing or engaging an advisor. But it's key to get the right advice early, so you can avoid missing opportunities. Especially when it comes to tax saving strategies, choosing the right investments, and making sure you have the right insurance coverage, determining what needs to be saved for retirement and ensuring you have an estate plan in place. A trusted advisor can help you articulate your financial goals, map out a plan of action and help monitor and update that plan as your priorities and financial situation evolves.

In my financial planning practice I often see clients who have procrastinated due to a misguided sense of "not being ready" or assuming they need to know more or be up to date with all financial jargon before they seek out an advisor. We are all experts in our respective fields, and I often point this out to clients who are feeling embarrassed to ask questions, that if we switched roles tomorrow, I wouldn't be automatically qualified to do their job either. That said, I highly encourage attending financial literacy seminars, reading financial planning books or articles, to familiarize yourself with certain concepts and to feel a level of confidence in the discussions you will have during the planning process.

For example, some common terms in the Canadian context are RRSP (Registered Retirement Savings Plan) which eventually become a RRIF (Registered Retirement Income Fund) at age 71. Often, we work for several companies over our careers, and often some sort of pension plan, that plan can be a Defined Contribution Plan or a Defined Benefit Plan, when we leave an employer with either one of these plans you are usually entitled to a lumpsum of your contributions over that time period, this is generally paid into a LIRA (Locked In Retirement Account) which you can manage on our own or transfer to an institution of your choice, and is available for your use only at age 55 or retirement.

A defined benefit pension plan is the gold standard, it guarantees you a certain level of income from the day you retire until you die, and often has a benefit for your spouse if you happen to predecease them. A Defined Contribution Plan on the other hand pools funds from the employee and employer over the years of employment, the funds are invested, and the employee is entitled to the lumpsum earned at retirement, but they must bear the risk of investing this lumpsum and ensuring it earns enough income to sustain retirement income goals.

The TFSA (Tax Free Savings Account) which should be renamed, Tax Free Investment Account, provides an opportunity to invest in eligible investments, which are allowed to grow tax-free throughout your lifetime, and can be withdrawn from your account at any time, for any reason, and all withdrawals are tax-free. Incorporating the TFSA into your retirement plan is key to effective tax planning, balancing the need to reduce taxes now, without compromising your retirement income plan.

Other terms often used in articles include, ETFs (Exchange Traded Funds) often lauded for their extremely low fees, easy access to diversified basket of securities and passive approach to investing in various indexes such as the S&P500. Mutual Funds are actively managed, a portfolio manager has a mandate which can range from US Equities and Global Growth to Canadian Dividend or Corporate Bonds, they charge investors a fee and invest on their behalf. Each strategy has its merits, and the process of creating a well-diversified portfolio should include access to publicly traded securities, both passively and actively managed, and should also include access to private markets which provide access to real estate, infrastructure, private debt, and equity.

The pension coverage rate—that is, the proportion of all paid workers covered by an RPP—was 37.1% in 2019, essentially unchanged from 2018 (37.2%). Over the years, the coverage rate has been trending downwards. A decade earlier, in 2009, the coverage rate was 39.4%; 20 years earlier, in 1999, it was 40.8%. The average CPP (Canada Pension Plan) payment is $702, while the average OAS (Old Age Security) is $642, with this in mind it is imperative that we begin planning for retirement as soon as possible. Compound interest is best served with time, let's look at an example below of how starting early can help you achieve your goals:

Age 35 to 65: $750 / month for 30 years | earning 7% rate of return can grow to $921,065

Age 50 to 65: $3000 / month for 15 years | earning 7% rate of return can grow to $959,433

Which is more feasible? With less than a third of the monthly savings required their retirement nest egg is roughly the same. It is easy to say "when the mortgage is paid off or when the kids go to university", but there is no time like the present to plan for future you.

Let's take concrete steps today, to ensure your vision and dreams of a retirement filled with travel, time for your favorite hobbies and the ability to spoil your grandchildren is a reality. A financial plan is a roadmap to achieving your goals, saving on taxes now and in retirement, investing wisely according to your values, time horizon and risk capacity, ensuring risk management strategies have been implemented and a consistent approach to monitoring and updating is in place.

Author:

Akilah Allen-Silverstein, CFP®, RRC®, Financial Advisor with Mandeville Private Client Inc.

https://www.instagram.com/silverstein.wealth/

linkedin.com/in/akilahallensilverstein

Sources:

https://www150.statcan.gc.ca/n1/daily-quotidien/210629/dq210629c-eng.htm

https://www.canada.ca/en/services/benefits/publicpensions/cpp/old-age-security/payments.html